



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 4/7/2000

GAIN Report #CO0011

Colombia

Sugar - Revised

Annual

2000

Approved by:

David G. Salmon, Agricultural Attaché

U.S. Embassy, Bogota. Colombia

Drafted by:

Héctor A. Sarmiento, Agricultural Specialist

Report Highlights:

Sugar area is not projected to grow much in the near future and production increases will be modest. Non-centrifugal sugar use will decline in the next few years. Colombia sugar exports, at 920,000 tons in 1999/2000, account for 41 percent of its output. In August 1999, Colombia and Brazil signed a bilateral agreement but sugar was not included in it. A similar agreement is expected to be signed with Argentina soon.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Bogota [CO1], CO

Table of Contents

Executive Summary	1
Production	1
Sugarcane for Centrifugal Sugar	1
Centrifugal Sugar	2
Non-centrifugal Sugar	3
Consumption	3
General	3
Consumption Trends	3
Prices	4
Trade	4
Sugarcane Exports	4
Sugar Exports	4
U.S. Sugar Quota	5
Stocks	6
Policy	6
Production Policy	6
Export Policy/Subsidies	6
Price Band	7
Andean Community and Mercosur Merger	7
Alcohol to be Used as Fuel	7
Sugar Price Stabilization Fund Created	8
TABLES	9
Centrifugal Sugar, PS&D, 1998/99 - 2000/01	9
Sugarcane for Centrifugal Sugar, 1998/99 - 2000/01	10
Exports of Centrifugal Sugar, 1999	11
Retail Prices for Refined Sugar, 1998 - 99	12
Non-centrifugal Sugar, PS&D, 1998/99 - 2000/01	12

Executive Summary

Colombia expansion of sugarcane **acreage** for centrifugal sugar is slowing down as the area available for this crop seems to be limited to 200,000 hectares; currently, Colombia has 190,000 hectares planted to sugarcane for centrifugal sugar. Sugar **production**, at 2.25 million tons in 1999/2000, is projected to grow only about one or two percent annually in the next few years. The sugar industry has set out to reach minimum levels of sugarcane foliage burning by year 2005. Sugar growers and manufacturers are very interested in producing organic sugar for the foreign market. The outlook for non-centrifugal sugar (panela) output is for modest reductions in the next few years as domestic consumers shift to refined sugar.

Sugar **use** had fallen four percent in 1998/99 due to the economic recession the country has experienced in the last few years. However, the economy seems to be improving, although slightly, and that is expected to reflect in an improvement in sugar consumption. In Colombia, there is a trend toward substituting refined brown sugar for refined white sugar and panela.

Colombia sugar **exports** account for about 40 percent of sugar production. About one-fifth of them are headed for Venezuela, the largest buyer. Other purchasers for the Colombian sugar are Ecuador and Peru, members of the Andean Community (AC); in sum, the AC takes almost half of the Colombian exports. In the last 15 years, Colombia has been shifting from exporting raw sugar to the refined product, in an attempt to sell a large value-added portion; some 40 percent of its sugar sales consists of refined sugar. About three percent of the sugar exported enter the United States under the sugar import quota.

The AC has been after a **merge with Mercosur** but since this process has been delayed, the AC decided to negotiate with the individual countries. A two year merger with Brazil was signed in August 1999 and another with Argentina is expected to be signed in April 2000. Colombia should start using **alcohol** as a fuel in 2001. As of April 2000, the GOC established a Sugar Price **Stabilization Fund**.

Production

Sugarcane for Centrifugal Sugar

Colombia's planted sugarcane area is projected to grow only 0.5 percent to 190,000 hectares in crop year 1999/2000 (September - August) and no increase is forecast for 2000/01. With world sugar prices falling in late 1998 and 1999, growers lost much of their enthusiasm for a more aggressive planting program. Sugarcane, however, continues to be one of the most profitable crop alternatives in the Cauca valley which is Colombia's sugar producing region. Harvested sugarcane area in 1999/2000 is estimated at 88 percent of total planted area compared to about 70 percent at the end

of the 1980s. This improvement is attributed to the continued trend to replace older plantings with newer, shorter term varieties. Colombia's sugarcane a decade ago averaged more than 15 months between cuttings, but currently planted varieties average only 12 months. Newer varieties are cut for the first time one year after planting and then are harvested every year for a total of five ratoons. Since some of the older varieties now being cultivated have a longer vegetative period, the average waiting period for a ratoon at present is 13.5 months.

Industry observers believe that total planted sugarcane area is not likely to exceed 200,000 hectares during the next decade. Expansion of sugarcane area beyond this level would require taking the crop into new producing zones that suffer from an underdeveloped infrastructure and are threatened by guerrilla groups and other criminal elements. Assuming that the industry is successful in improving field and factory yield levels through the continuation of its efforts to cultivate improved varieties, and that modest increases in planted area are also attained, Colombia's sugar production is projected to increase from current 2.25 to 2.4 million tons over the next 5-6 years.

Land limitation and the security threat posed by insurgent groups active in the countryside, has prodded Colombia's sugar industry to expand into neighboring countries. In the early 1990s, a group of Colombian sugar mills purchased a large Venezuelan mill near Colombia's northern border. Sugarcane from the adjacent growing zones within Colombia was previously utilized to produce non-centrifugal sugar but now most of it is being exported to this Venezuelan mill for processing into centrifugal sugar. Then, in 1999, three Colombian mills (Incauca, La Cabana and Manuelita) purchased a large mill (Laredo) in Peru. Additional investments in Peruvian mills were being considered but due to the slowdown in world sugar prices, Colombians prefer to wait.

The Colombian sugar industry consists of 14 sugar mills. The mills own approximately 35 percent of the land planted to sugarcane, with the remainder of this crop cultivated by growers that contract with mills. Most contracts relate cane prices to the content of sucrose. In a limited number of cases, growers receive a portion of their payment in the form of sugar.

The sugar industry has embarked on a campaign to eliminate the practice of burning. The industry is attempting to reach minimum levels of burning by the year 2005. Industry is doing this by planting cane that drops foliage before harvesting, investing in harvesting machinery, and cutting cane when it is still green. However, use of harvesting machinery results in lower employment and green cane cutting lowers hand cutting rate by two-thirds. In the last three years, the sugarcane industry has reduced burning of cane in 60,000 hectares or one-third of current sugar cane area.

Centrifugal Sugar

Although area harvested is not expected to change in 1999/2000, sugar production is projected to show a two percent increase to 2.25 million tons. Sugarcane production has benefitted from additional rainfall due to the La Nina weather phenomenon at the same time that modest improvements at the sugar mill have occurred. Assuming that normal weather prevails, Colombia's sugar production in 2000/01 is forecast to increase one percent to 2.28 million tons.

Sugar production over the next 3 - 5 years is projected to expand at an average annual rate of no more than one or two percent. It should be noted that Colombia's sugar industry is highly efficient.

It enjoys the world's highest sugar yield per hectare of sugarcane.

There is increasing interest among the sugar growers in producing organic sugar as because of its price, it is considered highly profitable. In fact, a couple mills and some sugarcane fields have already been certified by international organizations. Tentative exports of organic sugar have been made already.

Non-centrifugal Sugar

Non-centrifugal sugar (panela) output in 1999/2000 is projected at 1.3 million tons, slightly higher than the previous year. A similar panela production level is forecast for 2000/01. Panela output is projected to decline modestly over the next 3-5 years, reflecting a shift in domestic consumption to centrifugal sugar.

Consumption

General

Human consumption of sugar in Colombia during 1998/99 dropped four percent to 1.18 million tons, as a result of the severe economic recession that this country had been experiencing over the past three years. The economy fell five percent during 1999 and unemployment during most of this year was a high of 22 percent—in addition, underemployment was about 20 percent. The poor performance of the economy reflected in only modest increases for sugar utilization in the manufacture of processed foods and soft drinks; these two categories account for approximately one-third of Colombia's total sugar consumption. Nearly all of the balance goes for direct household consumption. About five percent of total sugar utilization is accounted for by the mixed feed industry.

However, economic indicators showed some recovering in the last quarter of 1999 and first quarter of year 2000. Consequently, projections for 1999/2000 situate sugar human consumption two percent higher than the previous year, in line with the population growth. About two percent annual increases in consumption are projected for the following three years.

The volume of sugar utilized in the manufacture of mixed feed is expected to grow slightly to 82,000 tons in 1999/2000. Sugar as an input for prepared animal feeds is expected to remain at current levels during the next 2-3 years.

Consumption Trends

Overall, growth in sugar consumption has been driven during the past decade by industrial users. At present the food processing sector accounts for 37 percent of total sugar usage compared to only 32 percent in the early 1990s. Nearly two-thirds of total industrial usage is for the production of sweetened soft drinks—the local soft drink bottling industry does not use high fructose corn syrup.

Annual per capita consumption of centrifugal sugar is estimated at 29 kilograms. Additionally, the average Colombian consumes 30 kilograms of non-centrifugal sugar (panela); panela is consumed largely by Colombia's lower income groups. Total annual per capita sugar consumption is equivalent to 59 kilograms. In comparison, annual per capita sugar consumption in the United States is estimated at 72 kilograms.

During the 1990s, the Colombian consumers have been shifting from refined white sugar to refined brown sugar as it is considered healthier. Currently, about 40 percent of the household refined sugar is consumed as brown sugar.

Prices

The average retail price for sugar in March 2000 was 1,024 pesos per kilogram (\$0.24 per lb.), a mere two percent over a year ago--the general rate of inflation over this same period was nine percent. In fact, domestic sugar prices have remained virtually unchanged at about 1,000 pesos per kilogram during the last two years. Due to the low purchasing power of the Colombian consumer domestic, demand for sugar has been very weak. However, local demand for sugar seems to be improving.

The average retail price for panela--non-centrifugal sugar--stands at 920 pesos per kilogram (\$0.21 per lb.), 12 percent below a year ago. In the 1980s, panela and sugar were at about the same price but now panela price is ten percent lower than sugar.

Trade

Sugarcane Exports

Colombian exports of sugarcane in 1999/2000 are estimated at 32,000 tons (\$0.8 million), down from 37,540 tons in 1998/99, as weather may be dryer in that area (please see "Production, Sugarcane for Centrifugal Sugar"). All sugarcane exports originate in growing areas located near the Venezuelan border and are directed to Venezuela. Part of Colombia's sugarcane produced in this area is used locally for panela (non-centrifugal sugar) and the balance is exported to a Colombian owned mill in Venezuela. No other sugar mills exist in the area. The outlook for 2000/01 is for sugarcane exports to increase one percent.

Sugar Exports

Colombia exports about 40 percent of its sugar output. According to official trade data recently made available, Colombian sugar exports fell from over a million tons in 1997/98 to 960,000 tons (\$181 million) in 1998/99. This was due to weak world raw sugar prices during that year, which averaged \$0.07 per pound compared to \$0.11 in 1997/98. Depending on world prices, sugar exports in 1999/2000 and 2000/01 are estimated to remain at about the same level as in 1998/99. Annual increments of about two percent are forecast for the following three years.

Venezuela has been the most important customer for Colombia's sugar, normally accounting for about 20 percent of all export shipments. Reportedly, the Venezuelan government wants to restrict sugar imports, which will adversely affect the Colombian product sales. In April 2000, the Venezuelan government established the import license requirement for the Colombian sugar which means that Venezuela may deny anytime the entrance of the Colombian sugar. Additionally, Venezuela has established an import quota of 132,013 tons of sugar from any source.

Other key destinations in the Andean region are Peru and Ecuador, which take about 15 percent each of all export sales. Colombia's sugar is granted duty-free entry into other Andean Community countries (Venezuela, Ecuador, Peru, and Bolivia). The United States takes about seven percent of Colombia's sugar exports. About one-third of all Colombian sugar shipments to the United States falls under the U.S. sugar quota, with the remainder going for processing and re-exportation.

Traditionally, Colombia's sugar exports consisted of raw sugar. The industry began to shift to sales of refined sugar in the mid-1980s. Exports of refined sugar in 1998/99 amounted to 400,000 tons (raw equivalent), accounting for 42 percent of total sugar shipments. The industry continues to stress refined sugar exports in order to maximize export revenues.

Colombian panela (non-centrifugal sugar) exports are relatively small and erratic in volume from year to year. Colombia exported 1,367 tons of panela in 1998/99 valued at \$1.1 million, up 50 percent in volume from a year earlier. The main buyer for Colombia's panela is the United States which takes two-thirds of all panela exports. Most of this product is consumed by U.S. consumers with a Latin heritage. Venezuela purchases about 20 percent and the European Union the rest.

Sugar imports are minimal and occur only when price differentials favor them. They come mainly from Andean Community countries.

U.S. Sugar Quota

Colombia exported 75,268 tons of raw sugar to the United States in 1998/99. The U.S. sugar import quota for Colombia during the October 1999-September 2000 period is fixed at 25,274 tons. To date, the U.S. sugar import quota assigned to Colombia is three percent below the volume assigned the previous year. Reportedly, 80 percent of this authorized quota already has been exported.

The U.S. sugar import quota for Colombia represents only three percent of Colombia's total sugar export volume but the local industry views this volume as a significant issue given the profitability of these sales. The international price averaged half the price for the U.S. quota sugar—sugar sales to the United States which do not fall within the import quota are made at world prices.

INCOMEX, an agency under the Ministry of Foreign Trade, is in charge of issuing the U.S. sugar quota certificates of eligibility to the local industry. INCOMEX's formula for the issuance of the certificates is based upon the following guidelines:

- About 80 percent of the total quota is allocated to the large sugar mills; each sugar mill is assigned by ASOCAÑA (the largest Colombian sugar growers association) a percentage

of this volume based upon its production during the previous year. The sugar mills make their export sales and shipments through CIAMSA, an export company representing all of the sugar mills.

- Some 18 percent of the total quota is granted to small exporters of panela (non-centrifugal sugar) who can demonstrate previous export experience. The actual volume assigned to each panela exporter reflects his previous export sales. If panela exporters fail to meet their assigned sales volumes within a six month period, any excess is re-distributed to the large sugar mills.
- The remaining two percent of the total quota volume is granted to new panela exporters.

Stocks

We have revised downward our estimate of carryin sugar stocks for 1999/2000 to 95,000 tons from 105,000 tons. This is due to larger than initially estimated feed use during that year. This carryover level corresponds to slightly more than two weeks of domestic consumption and export requirements. These stocks are considered adequate considering that Colombia enjoys a the unique feature of being able to produce sugar during the whole year..

Policy

Production Policy

The GOC considers that the sugar sector is economically vibrant and, therefore, sees little need to provide production incentives. For the less affluent farmers who produce sugarcane for panela, however, the GOC is providing assistance designed to raise their incomes. These efforts concentrate on expanding the availability of credit, developing more productive and disease-resistant varieties of sugarcane--for panela, and by providing extension services aimed at improving cultivation practices. Although some improvement in farm income for panela producers has been achieved, the GOC's efforts to improve sugarcane yields from those varieties planted by panela producers have achieved very little success.

Export Policy/Subsidies

Colombia is a member of the ten-nation International Sugar Agreement (ISA). Colombia has been unsuccessful in its efforts to establish country export quotas because of lack of support from other ISA members.

Since the late 1960s, Colombian exporters of centrifugal sugar and panela have received export subsidies in the form of income tax rebate certificates (CERTS). These CERTS have a value equal to a percentage of the fob export value. Initially the percentage for sugar was fixed at 15 percent.

Since 1992, the CERT has been set at 2.5 percent of the fob value for centrifugal sugar and four percent for panela. The GOC does not provide this export subsidy on sales to the United States because of the higher prices obtained under the U.S. import quota system. The local industry has lobbied unsuccessfully to obtain this export subsidy on sugar sales to the United States outside of the import quota system, based on the argument that these sales are made at prevailing world prices.

Price Band

Under the terms of the Andean Community, sugar imports from other Community countries are allowed duty-free entry into the Colombian market. Colombia's government, through the application of the Andean Community's price band, discourages sugar imports from countries outside the Andean Community. The basic duty rate on imports of raw and refined sugar from non-Andean Community countries is 20 percent. The variable surcharge calculation for sugar is based upon adjusted floor, ceiling, and reference price levels determined by the Andean Board of Directors. Under this system, import duties are levied on calculated reference prices and not on actual invoice prices. The Andean Community revises annual ceiling and floor prices in April. Reference prices are adjusted by the Andean Community every two weeks. If the applicable reference price falls within the floor and ceiling price band, the import duty is calculated using the basic tariff rate applied to the reference price. When the reference price falls below the floor price a variable levy or surcharge based upon the difference between the floor price and the reference price is assessed. Conversely, when the reference price exceeds the ceiling price, a reduction is made to the applied duty based upon the difference between the reference and the ceiling price. For the first half of April 2000, Colombia's total effective duty--basic duty plus surcharge--on imports of raw sugar is equivalent to 122 percent of the reference price or \$171 per ton while the total effective duty for refined sugar is 121 percent of the reference price or \$238 per ton.

Andean Community and Mercosur Merger

The Andean Community (Colombia, Peru, Ecuador, Bolivia, and Venezuela) has been negotiating with Mercosur (Argentina, Brazil, Uruguay, and Paraguay) to merge these two trade blocks since the mid-1990s. Negotiations proved to be problematic and the Andean Community (AC), although continuing its interest in the whole group, decided to negotiate agreements with the individual Mercosur countries.

On August 16, 1999, the AC signed a merger with **Brazil** effective until August 2001. The AC expects that by that time the complete Mercosur block will be ready to merge. Under pressure from the Colombian sugar sector, the Colombian Government excluded sugar from the Mercosur negotiations. The Colombian sugar industry argues that Mercosur sugar, especially from Brazil, is heavily subsidized. The AC is currently negotiating a similar agreement with **Argentina** and reportedly, it could be signed by the end of April 2000.

Alcohol to be Used as Fuel

The Colombian government has decreed that starting in 2001 gasoline must have a two percent

oxygen content. The additive chosen was alcohol. Initially, molasses from the sugar industry would be processed to obtain the alcohol and later on additional sugarcane would be planted. However, currently, no definite projects are yet ready.

Sugar Price Stabilization Fund Created

The Ministry of Agriculture created the Sugar Price Stabilization Fund as of April 1, 2000 which is to be used for compensating lower export prices. The parameters under which this fund will function have not been established yet. Sugar producers welcomed this measure now that world sugar prices are at a low ebb. However, when prices improve, sugar producers must contribute to it.

TABLES

Colombia: Centrifugal Sugar, PS&D, 1998/99 - 2000/01 (1,000 tons)

PSD Table						
Country:	Colombia					
Commodity:	Sugar					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin	09/1998		09/1999		09/2000	
Beginning Stocks	64	64	57	49	105	95
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2169	2199	2240	2250		2280
TOTAL Sugar Production	2169	2199	2240	2250	0	2280
Raw Imports	1	1	1	1		1
Refined Imp. (Raw Val)	7	6	7	6		5
TOTAL Imports	8	7	8	7	0	6
TOTAL SUPPLY	2241	2270	2305	2306	105	2381
Raw Exports	530	569	530	530		535
Refined Exp. (Raw Val)	410	391	410	390		405
TOTAL EXPORTS	940	960	940	920	0	940
Human Dom. Consumption	1194	1180	1210	1209		1235
Feed Dom. Consumption	50	81	50	82		83
TOTAL Dom. Consumption	1244	1261	1260	1291	0	1318
Ending Stocks	57	49	105	95	105	123
TOTAL DISTRIBUTION	2241	2270	2305	2306	105	2381

Source: Asocaña (Colombian Sugar Growers Association).

Colombia: Sugarcane for Centrifugal Sugar, 1998/99 - 2000/01
(1,000 hectares and 1,000 tons)

PSD Table						
Country:	Colombia					
Commodity:	Sugar Cane Centrifugal					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		09/1998		09/1999		09/2000
Area Planted	192	189	194	190		190
Area Harvested	186	168	186	168		168
Production	18200	18800	18400	19200		19400
TOTAL SUPPLY	18200	18800	18400	19200	0	19400
Utilization for Sugar	18200	18800	18400	19200	0	19400
Utilizatr for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	18200	18800	18400	19200	0	19400

Source: Asocaña (Colombian Sugar Growers Association).

Colombia: Exports of Centrifugal Sugar, 1999 (1,000 tons)

Export Trade Matrix			
Country:	Colombia	Units:	1,000 metric tons
Commodity:	Sugar		
Time period:	Jan-Dec		
Exports for	1999		2000
U.S.	75	U.S.	
Others		Others	
Venezuela	130		
Tunisia	234		
Peru	205		
Russia	115		
Germany	61		
Chile	38		
Haiti	32		
Sri Lanka	27		
Dominican Rep.	19		
Trinidad/Tobago	19		
Total for Others	880		0
Others not listed	5		
Grand Total	960		0

Source: DANE (National Statistics Bureau).

Colombia: Retail Prices for Refined Sugar, 1998 - 99 (Pesos per kilogram)

Prices Table					
Country:	Colombia				
Commodity:	Sugar				
Year:	1999				
Prices in (currency)	Pesos	per (uom)	kilo		
Year	1998	1999	% Change		
Jan	810	1000	23.5%		
Feb	789	1000	26.7%		
Mar	817	1000	22.4%		
Apr	1000	1000	0.0%		
May	1050	990	-5.7%		
Jun	1050	1000	-4.8%		
Jul	1025	1000	-2.4%		
Aug	1000	1000	0.0%		
Sep	984	1000	1.6%		
Oct	990	944	-4.6%		
Nov	995	956	-3.9%		
Dec	1000	968	-3.2%		

Source: Agricultural Attaché's Office surveys.

**Colombia: Non-centrifugal Sugar Area and Cane Production
1998/99 - 2000/01 (1,000 Hectares and 1,000 Tons)**

PSD Table						
Country:	Colombia					
Commodity:	Sugar Cane Non-Cent rifugal					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		09/1998		09/1999		09/2000
Area Planted	328	328	328	328	0	329
Area Harvested	213	213	213	213	0	214
Production	10650	10650	10650	10650	0	10700
TOTAL SUPPLY	10650	10650	10650	10650	0	10700
Utilization for Sugar	10650	10650	10650	10650	0	10700
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	10650	10650	10650	10650	0	10700

Source: Ministry of Agriculture.

Colombia: Non-centrifugal Sugar, PS&D, 1998/99 - 2000/01 (1,000 tons)

PSD Table						
Country:	Colombia					
Commodity:	Non-Centrifugal Sugar					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		09/1998		09/1999		09/2000
Production	1269	1272	1272	1278	0	1284

Source: Ministry of Agriculture.

C:\RPT25667543.WPD